

# City of Detroit

## CITY COUNCIL

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TO: Pamela Scales, Director  
Budget Department (Capital Budget)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 28, 2010

RE: 2010-2011 Budget Analysis

24.

Attached is our budget analysis regarding the Capital Budget for the upcoming 2010-2011 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General  
Tom Lijana, Finance Director  
Pamela Scales, Budget Director  
Renee Short, Budget Department  
Kamau Marable, Mayor's Office

## **Capital Budget Hearing and Debt Service Fund**

### **FY 2010-2011 Proposed General Obligation Bond Budget**

### **FY 2010-2011 Budget Analysis by the Fiscal Analysis Division**

The Mayor's 2010-2011 Recommended Budget does not include any general obligation bond sales for citywide capital improvement projects. Unlimited tax general obligation bonds are city debt. The debt service levy for the principal and interest payment on unlimited tax general obligation bonds is over and above the 20 mills for operations. The Headlee Amendment to the State constitution, adopted in 1978, states that unlimited tax general obligation bonds cannot be issued without an affirmative vote of the electorate.

We have been told by the Administration that it is felt that it would be too expensive to sell bonds in the current market, based on the city's current bond ratings. Additionally, there are still no plans to sell the bonds budgeted in the 2007-2008 and 2008-2009 budgets. The Budget Department plans to retract those appropriations in DRMS, so no department mistakenly spends against them.

### **Comparison of Last 5 Capital Budgets and Mayor's Recommended Budget**

<u>2005-2006 Capital Funds</u>	<u>2006-2007 Capital Funds</u>	<u>2007-2008 Capital Funds</u>	<u>2008-2009 Capital Funds</u>	<u>2009-2010 Capital Funds</u>	<u>Department</u>	<u>Proposed 2010-2011 Capital Funds</u>
\$ -0-	\$ 5,000,000	\$ 1,000,000	\$ 3,500,000	\$ -0-	Airport	\$ -0-
\$ 4,800,000	\$ 292,000	\$ 99,000	\$ 100,000	\$ -0-	DIA	\$ -0-
\$ 200,000	\$ 1,000,000	\$ 200,000	\$ -0-	\$ -0-	Chas.WrightMus	\$ -0-
\$ -0-	\$ -0-	\$ 200,000	\$ -0-	\$ -0-	Civic Center	\$ -0-
\$ 10,000,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	DOT/DTC.	\$ -0-
\$ 2,000,000	\$ -0-	\$ 2,430,000	\$ -0-	\$ -0-	DPW	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	\$ -0-	\$ -0-	Eastern Market	\$ -0-
\$ 109,000	\$ 1,900,000	\$ 3,500,000	\$ 5,500,000	\$ -0-	Fire	\$ -0-
\$ -0-	\$ -0-	\$ 4,487,000	\$ 1,100,000	\$ -0-	GSD	\$ -0-
\$ -0-	\$ 1,000,000	\$ 5,000,000	\$ 1,500,000	\$ -0-	Health	\$ -0-
\$ 281,000	\$ 500,000	\$ 2,800,000	\$ 17,200,000	\$ -0-	Historical	\$ -0-
\$ 2,600,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	Hm. Sec. (Fire)	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	\$ -0-	\$ -0-	Library	\$ -0-
\$ 1,000,000	\$ -0-	\$ 7,500,000	\$ -0-	\$ -0-	PDD	\$ -0-
\$ 20,500,000	\$ 5,000,000	\$ 15,000,000	\$ 17,500,000	\$ -0-	Police	\$ -0-
\$ 2,800,000	\$ 12,900,000	\$ 7,000,000	\$ 7,000,000	\$ -0-	Public Lighting	\$ -0-
\$ 5,800,000	\$ 17,550,000	\$ 4,085,000	\$ 1,000,000	\$ -0-	Recreation	\$ -0-
\$ 1,500,000	\$ 5,000,000	\$ 985,000	\$ -0-	\$ -0-	Zoo	\$ -0-
\$ 51,590,000	\$ 50,142,000	\$ 56,286,000	\$ 54,400,000	\$ -0-	Total	\$ -0-

### **Debt Service Fund - Sinking Interest and Redemption**

The Debt Service Fund represents the anticipated appropriation needed to pay debt service in FY 2010-2011 for all past general obligation bond sales. This appropriation is completely offset by the budgeted revenue of property tax, industrial facilities tax and

commercial facilities tax that are obligated for the principal and interest payments on outstanding unlimited tax general obligation bonds.

Below, please find a comparison of the 2009-2010 and 2010-2011 Budget for debt service and the applicable tax rate:

	<u>FY 2009-2010</u>	<u>FY 2010-2011</u>	<u>Change</u>	<u>% Change</u>
Appropriation	\$ 72,351,284	\$ 80,913,766	\$ 8,562,482	11.8%
Debt Service Tax Rate	\$ 7.4773 mills	\$ 8.9157 mills	\$ 1.4384	19.23%
Property Valuation	\$ 9,725,918,781	\$9,111,881,179	\$ (614,037,602)	(6.31)
Collection Factor	96%	88 %	(8%)	

### Questions

1. Last year a contractor was hired to determine if arbitrage occurred. Have they finished their analysis? When will Council receive a report?
2. How many of the unsold bond appropriations budgeted in 2007-2008 and 2008-2009 have been spent? Were the appropriations ever taken out of DRMS so they wouldn't be used by mistake? Does this require a budget amendment letter before Council?
3. Please provide Council with a detailed report showing unspent bond balances.
4. What amount of interest earnings from the past year is available to be appropriated to departments?
5. Please explain why at an 88% collection rate the city will collect \$71.2 million and the debt service schedule shows the payment this year to be \$69 million?
6. Is the collection rate really 88% or are there many properties still being counted in the valuation but have reverted to either non-profit status or belong to the city or some other government?